



**City of
Matlosana**
City of Matlosana

Annual Financial Statements
for the year ended 30 June 2015

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

General Information

Nature of business and principal activities

To within its financial and administrative capacity :
-provide democratic and accountable government for the community of Matlosana;
-to ensure the provision of services to the community in a sustainable manner;
-to promote social and economic development;
-to promote a safe and healthy environment; and
To encourage the involvement of the community and community organizations in the matters of the municipality.
Legislation governing the operations of the municipality includes but are not limited to the following:
-The Constitution of the Republic of South Africa, 1996 and specifically Chapter 7
-Local Government: Municipal Structures Act 117 of 1998
-Local Government: Municipal Systems Act 32 of 2000
-Local Government: Municipal Finance Management Act 56 of 2003

Mayoral committee

Executive Mayor

M.K Khauoe

Councillors

M.M.S Lee
G.R Kgosi
M.E Mthimkulu
T.I Thobedi
G.C Mbobo
M.L Mothibedi
M.E Kgaile
R.A Matsepe
N.S. Mandela
P.R Pooe

Acting Accounting Officer

S.G. Mabuda

Acting Chief Finance Officer (CFO)

C.H.R. Boshoff

Registered office

Bram Fischer Street
Klerksdorp
2571

Business address

Bram Fischer Street
Klerksdorp
2571

Postal address

P.O. Box 99
Klerksdorp
2570

Bankers

ABSA Bank Ltd

Auditors

Auditor General

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature :

Index	Page
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Changes in Net Assets	6
Statement of Financial Performance	5
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 9
Accounting Policies	10 - 27
Notes to the Annual Financial Statements	28 - 56

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MMC	Member of the Mayoral Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements is still subject to audit.

The annual financial statements set out on pages 4 to 56, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

Accounting Officer
S.G. Mabuda

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014
Assets			
Current Assets			
Inventories	8	73 604 140	79 180 798
Receivables from exchange transactions	9	37 407 635	27 926 164
VAT receivable	10	40 282 718	15 775 108
Consumer debtors	11	86 012 641	75 798 945
Other receivables	7	4 601 180	4 600 249
Cash and cash equivalents	12	32 901 254	49 657 662
		274 809 568	252 938 926
Non-Current Assets			
Investment property	2	45 755 556	46 210 660
Property, plant and equipment	3	5 983 421 701	6 358 939 966
Intangible assets	4	763 104	763 104
Heritage assets	5	5 995 054	5 995 054
Other financial assets	6	25 796 965	24 016 041
Other receivables	7	162 548	186 599
Nature reserve - Wild stock		1 959 566	2 027 613
		6 063 854 494	6 438 139 037
Total Assets		6 338 664 062	6 691 077 963
Liabilities			
Current Liabilities			
Other financial liabilities	13	13 109 542	14 706 478
Payables from exchange transactions	16	536 198 322	503 497 110
Unspent conditional grants and receipts	14	34 989 995	55 521 712
Provisions	15	12 445 579	13 533 648
Consumer deposits	17	22 947 417	16 678 404
National Treasury Liability		-	40 100 000
		619 690 855	644 037 352
Non-Current Liabilities			
Other financial liabilities	13	115 829 754	128 939 305
Provisions	15	267 491 759	243 462 265
		383 321 513	372 401 570
Total Liabilities		1 003 012 368	1 016 438 922
Net Assets		5 335 651 694	5 674 639 041
Net Assets			
Accumulated surplus		5 335 651 694	5 674 639 041

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014
Revenue			
Service charges	20	1 061 158 920	988 903 850
Rendering of services		38	4 154
Rental of facilities and equipment		5 232 869	4 905 070
Licences and permits		6 773 240	7 012 811
Miscellaneous other revenue		137 440	211 098
Commissions received		9 885 896	10 337 606
Royalties received		1 976 233	2 123 176
Rental income		237 722	138 187
Discount received		569 692	880 337
Recoveries		2 013 743	40 645 863
Other income		16 758 313	16 424 239
Donation of community hall		5 000 000	-
Interest received - investment		91 202 405	57 067 892
Property rates	19	247 297 084	190 356 830
Government grants & subsidies	21	434 482 074	438 551 726
Levies		1 507 176	1 397 186
Fines		5 386 779	9 305 861
Market Dues		14 928 306	15 418 449
Total revenue		1 904 547 930	1 783 684 335
Expenditure			
Employee related costs	24	(478 440 938)	(458 412 261)
Remuneration of councillors	25	(20 458 257)	(20 850 463)
Depreciation and amortisation	28	(439 621 839)	(439 756 557)
Finance costs	29	(43 778 999)	(34 448 853)
Lease rentals on operating lease		(8 941 272)	(8 424 508)
Debt Impairment	26	(298 583 413)	(199 453 276)
Repairs and maintenance		(56 472 941)	(41 003 536)
Bulk purchases	32	(657 629 307)	(646 684 366)
Contracted services	31	(28 704 583)	(98 654 755)
General Expenses	23	(210 903 728)	(192 148 270)
Total expenditure		(2 243 535 277)	(2 139 836 845)
Operating deficit		(338 987 347)	(356 152 510)
Deficit for the year		(338 987 347)	(356 152 510)

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
Opening balance as previously reported	5 125 928	5 852 844 874	5 857 970 802
Adjustments			
Correction of errors	(5 125 928)	177 946 677	172 820 749
Balance at 01 July 2013 as restated*	-	6 030 791 551	6 030 791 551
Changes in net assets	-	(356 152 510)	(356 152 510)
Restated deficit for the year (refer to note 37)	-	(356 152 510)	(356 152 510)
Total changes	-	(356 152 510)	(356 152 510)
Balance at 01 July 2014	-	5 674 639 041	5 674 639 041
Changes in net assets	-	(338 987 347)	(338 987 347)
Deficit for the year	-	(338 987 347)	(338 987 347)
Total changes	-	(338 987 347)	(338 987 347)
Balance at 30 June 2015	-	5 335 651 694	5 335 651 694
Note(s)			

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
Cash flows from operating activities			
Receipts			
Sale of goods and services		974 674 124	960 340 309
Grants		413 950 357	435 382 767
Interest income		91 202 405	57 067 891
VAT received		477 161	33 066 893
Other receipts		55 128 491	64 423 792
		<u>1 535 432 538</u>	<u>1 550 281 652</u>
Payments			
Employee costs		(479 301 119)	(462 224 849)
Suppliers		(887 767 506)	(886 051 465)
Finance costs		(43 778 999)	(34 448 853)
		<u>(1 410 847 624)</u>	<u>(1 382 725 167)</u>
Net cash flows from operating activities	33	124 584 914	167 556 485
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(96 128 268)	(132 756 621)
Proceeds from sale of property, plant and equipment	3	5 105 345	1 894 980
Proceeds from sale of Investment property		-	2 313 501
Net movement of financial assets		(1 780 924)	(7 638 592)
Proceeds from sale of other receivables		-	22 214
Net cash flows from investing activities		(92 803 847)	(136 164 518)
Cash flows from financing activities			
Repayment of other financial liabilities		(14 706 487)	(17 003 821)
Movement in consumer deposits		6 269 012	(23 026 610)
Repayment of liability to National Treasury		(40 100 000)	-
Net cash flows from financing activities		(48 537 475)	(40 030 431)
Net increase/(decrease) in cash and cash equivalents		(16 756 408)	(8 638 464)
Cash and cash equivalents at the beginning of the year		49 657 662	58 296 126
Cash and cash equivalents at the end of the year	12	32 901 254	49 657 662

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amountson comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	1 128 872 395	(43 113 724)	1 085 758 671	1 061 158 920	(26 116 661)	The number of indigent accounts was higher than originally budgeted for.
Rendering of services	20		20	38	18	
Rental of facilities and equipment	5 766 341	(720 511)	5 045 830	5 232 869	187 039	
Licences and permits	6 986 449	7 809 414	14 795 803	6 773 240	(8 022 623)	
Miscellaneous other revenue	2 420 961	(244 041)	2 176 920	137 440	(2 039 480)	
Commissions received	14 378 359	(7 450 639)	6 927 720	9 885 896	2 958 176	
Royalties received	1 722 833	454 287	2 177 120	1 976 233	(200 887)	
Rental income	609 861	(383 061)	226 800	237 722	10 922	
Discount received	584 700	(86 720)	497 980	569 692	71 712	
Recoveries	42 240	(37 520)	4 720	2 013 743	2 009 023	
Other income	53 936 185	(28 514 905)	25 421 280	16 758 313	(6 863 637)	
Donations Received				5 000 000	5 000 000	
Interest received - investment	43 998 000	34 823 890	78 821 890	91 202 405	12 380 515	There was better cash management of the call accounts and more investments were made during the year.
Total revenue from exchange transactions	1 259 318 344	(37 463 590)	1 221 854 754	1 200 946 511	(20 625 883)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	281 145 162	(63 500 632)	217 644 530	247 297 084	29 652 554	The supplementary valuation was approved after the budget approval.
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Transfer revenue

Government grants & subsidies	347 182 990	1 566 560	464 345 550	434 482 074	(29 963 469)	Grants were withheld by National Treasury due to unapproved rollovers.
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Levies	1 700 000	(183 550)	1 516 450	1 507 176	(9 274)
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Fines	7 437 200	(5 307 200)	2 130 000	5 386 779	3 256 779
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Market Dues	17 000 000	(2 997 330)	14 002 670	14 928 306	925 636
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Total revenue from non-exchange transactions	654 465 352	(70 422 152)	699 639 200	703 601 419	3 862 226
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Total revenue	1 913 783 696	(107 885 742)	1 921 493 954	1 904 547 930	(16 763 657)
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Expenditure

Personnel	(471 741 563)	(4 940 712)	(476 682 275)	(478 440 938)	7 263 782
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Remuneration of councillors	(21 314 479)	913 269	(20 401 210)	(20 458 257)	87 563
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Depreciation and amortisation	(439 206 526)	(19 283 173)	(458 489 699)	(439 621 839)	18 867 860
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Finance costs	(12 458 529)	(468 451)	(12 926 980)	(43 778 999)	(30 852 019)	Overdue bulk purchases accounts attracting interest
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Lease rentals on operating lease	(8 552 446)	(1 073 104)	(9 625 550)	(8 941 272)	(2 916 398)
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Bad debts written off	(123 779 000)	(178 231 100)	(302 010 100)	(298 583 413)	2 526 687
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Repairs and maintenance	(56 402 154)	(16 753 217)	(73 155 371)	(56 472 941)	3 146 862
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Bulk purchases	(605 600 130)	(47 660 023)	(653 260 153)	(657 629 307)	7 168 073
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Contracted Services	(79 726 173)	39 837 103	(39 889 070)	(28 704 583)	3 678 757
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General Expenses	(183 478 156)	(39 360 146)	(222 838 302)	(210 903 728)	18 122 852	There was no budget for the loss incurred on disposal of material assets.
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Total expenditure	(2 002 259 156)	(267 019 554)	(2 269 278 710)	(2 242 841 427)	27 094 019
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Deficit before taxation	(88 475 460)	(374 905 296)	(347 784 756)	(338 987 347)	10 330 362
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Capital Expenditure & Funds Sources

Capital Expenditure

Transfers Recognised - Capital	114 856 000	740 000	115 596 000	92 822 525	22 773 475
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Public Contributions & Donations				5 000 000	(5 000 000)
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Internally Generated Funds		41 510 000	41 510 000	3 305 743	38 204 257
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Total Sources Of Capital Funds	114 856 000	42 250 000	157 106 000	101 128 268	55 977 732	There were insufficient funds for capital expenditure due treasury withholding money earmarked for infrastructure projects.
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City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgements is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. When any significant judgements and sources of estimation uncertainty are applicable, they have been disclosed in the relevant policy.

1.4 Nature Reserve - Wild Stock

The entity recognises nature reserve - wild stock when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Nature Reserve - Wild Stock are measured at their fair value less costs to sell.

The fair value of the wild stock is determined based on auction prices.

A gain or loss arising on initial recognition of nature reserve - wild stock at fair value less costs to sell and from a change in fair value less costs to sell of a nature reserve - wild stock is included in surplus or deficit for the period in which it arises.

Accounting Policies

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Accounting Policies

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	7 - 30 years
Furniture and fixtures	7 - 10 years
Infrastructure	
• Roads and paving	10 to 30 years
• Electricity	20 to 30 years
• Wastewater network	15 to 20 years
Other vehicles	3 to 20 years
Other equipment	5 to 10 years
Specialised plant and machinery	5 to 15 years
Other property, plant and equipment	3 to 15 years

Accounting Policies

1.6 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Accounting Policies

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 Heritage assets (continued)

Heritage assets are shown at cost and are not depreciated owing to uncertainty regarding to their estimated useful lives.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Accounting Policies

1.8 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.9 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit exclude dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Accounting Policies

1.9 Financial instruments (continued)

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.9 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Accounting Policies

1.10 Leases (continued)

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability. The lease assets are depreciated at appropriate rates as per the relevant policy.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in restated deficit as per statement of changes in net assets.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the expense to the municipality.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Other post retirement obligations

The entity provides post-retirement health care benefit to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Leave and bonus accruals :

Accounting Policies

1.13 Provisions and contingencies (continued)

- liabilities for annual leave and bonus are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end for the leave accrual and the bonus accrual based on the initial inception of the service month.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- (a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- (b) a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Accounting Policies

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed program may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.17 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred otherwise than in accordance with section 15 or 11(3) of the MFMA and includes :

- overspending of the total amount appropriated in the approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;

Accounting Policies

1.21 Unauthorised expenditure (continued)

- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the act.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the restated deficit as per statement of changes in net assets in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the restated deficit as per statement of changes in net assets.

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Restated deficit as per Statement of changes in Net Assets and where recovered, it is subsequently accounted for as revenue in the Restated deficit as per Statement of changes in Net Assets.

1.24 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the restated deficit as per statement of changes in net assets when the gratuity is paid.

1.26 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the restated deficit as per statement of changes in net assets.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the restated deficit as per statement of changes in net assets in the same period in which the hedged firm commitment or forecasted transaction affects net surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the restated deficit as per statement of changes in net assets as they arise.

1.27 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.28 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.31 Retirement benefits

Councillors and employees as well as Council contribute to the following pension and provident funds, which provide retirement benefits to such Councillors and employees :

- Municipal Employees Gratuity Fund
- Pension Fund for Municipal Councillors
- National Fund for Municipal Workers
- SALA Pension Fund
- SAMWU Provident Fund
- Municipal Employees Pension Fund

Council does not operate or are not involved in a guaranteed benefit pension scheme. The above schemes are only based on guaranteed contributions from the side of the employer.

1.32 Going concern

These annual financial statements have been prepared on a going concern basis.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.33 Comparative information

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are also reclassified.

1.34 New Standards and Interpretations

Application of all of the GRAP standards listed below will be effective from a date to be announced by the Minister of Finance.

Management has considered all the of the listed GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting
- GRAP 20 Related Party Disclosures
- GRAP 25 Employee Benefits
- GRAP 105 Transfers between entities under common control
- GRAP 106 Transfers between entities not under common control
- GRAP 107 Mergers
- Improvements to Standards of GRAP

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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2. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	45 755 556	-	45 755 556	46 210 660	-	46 210 660

Reconciliation of investment property - 2015

	Opening balance	Transfers	Total
Investment property	46 210 660	(455 104)	45 755 556

Reconciliation of investment property - 2014

	Opening balance	Transfers	Total
Investment property	48 524 161	(2 313 501)	46 210 660

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	532 166 403	(115 806 326)	416 360 077	534 263 782	(92 634 885)	441 628 897
Infrastructure	10 293 946 409	(5 435 105 803)	4 858 840 606	10 330 542 874	(5 177 832 578)	5 152 710 296
Community	947 374 174	(302 814 948)	644 559 226	942 025 105	(255 353 772)	686 671 333
Other property, plant and equipment	246 376 425	(182 714 633)	63 661 792	157 049 460	(79 120 020)	77 929 440
Total	12 019 863 411	(6 036 441 710)	5 983 421 701	11 963 881 221	(5 604 941 255)	6 358 939 966

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Total
Buildings	441 628 897	29 160	-	(2 126 539)	-	-	(23 171 440)	416 360 078
Infrastructure	5 152 710 297	85 306 176	(32 097 413)	-	-	(867 217)	(346 211 237)	4 858 840 606
Community	686 671 333	14 271 955	-	-	-	-	(56 384 062)	644 559 226
Other property, plant and equipment	77 929 440	1 520 977	(1 933 524)	-	-	-	(13 855 101)	63 661 792
	6 358 939 967	101 128 268	(34 030 937)	(2 126 539)	-	(867 217)	(439 621 840)	5 983 421 702

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	468 503 403	-	-	(1 895 016)	-	-	(23 448 467)	(1 531 023)	441 628 897
Infrastructure	5 381 673 973	115 227 614	(614 727)	-	-	-	(343 576 563)	-	5 152 710 297
Community	728 698 672	13 983 443	-	-	-	-	(56 010 782)	-	686 671 333
Other property, plant and equipment	89 710 237	3 545 564	(136 636)	-	-	-	(15 108 599)	(81 126)	77 929 440
	6 668 586 285	132 756 621	(751 363)	(1 895 016)	-	-	(438 144 411)	(1 612 149)	6 358 939 967

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	103 902 418	103 902 418
Additions/capital expenditure	39 319 832	39 319 832
Transferred to completed items	(95 047 592)	(95 047 592)
	48 174 658	48 174 658

Reconciliation of Work-in-Progress 2014

	Included within Infrastructure	Total
Opening balance	81 872 886	81 872 886
Additions/capital expenditure	61 551 030	61 551 030
Transferred to completed items	(39 521 498)	(39 521 498)
	103 902 418	103 902 418

Deemed cost

4. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	763 104	-	763 104	763 104	-	763 104

Reconciliation of intangible assets - 2015

	Opening balance	Total
Computer software, other	763 104	763 104

Reconciliation of intangible assets - 2014

	Opening balance	Total
Computer software, other	763 104	763 104

5. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museum collectable, Monuments and Heritage sites	5 995 054	-	5 995 054	5 995 054	-	5 995 054

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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5. Heritage assets (continued)

Reconciliation of heritage assets 2015

	Opening balance	Total
Museum collectable, Monuments and Heritage sites	5 995 054	5 995 054

Reconciliation of heritage assets 2014

	Opening balance	Total
Museum collectable, Monuments and Heritage sites	5 995 054	5 995 054

Heritage assets which fair values cannot be reliably measured

Heritage Assets

The following heritage assets cannot be reliably measured: 15 Grave stones/graves, 6 Monuments, 1 railway line bridge, 1 old mine shaft, 1 rock engraving, 1 foundation and 1 rock wall. Fair value cannot be determined reliably due to the uniqueness of the asset and no market exists for the assets to establish a reasonable value.

6. Other financial assets

At amortised cost

Investments	25 796 965	24 016 041
The municipality has not reclassified any financial assets from amortised cost to fair value or from fair value to amortised during the current or prior year.		

Non-current assets

At amortised cost	25 796 965	24 016 041
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Financial assets at amortised cost

Nominal value of Investments

Nedcor: FK183349	18 492 798	17 131 213
The Nedcor investment is encumbered by a pledge of R3 700 000.		
Sanlam: Capital guaranteed fund - 040710409X0	458 073	431 895
Sanlam: Capital guaranteed fund - 040644725x0	6 846 094	6 452 932
	25 796 965	24 016 040

7. Other receivables

Loan to Klerksdorp Rolbalkklub

Short term portion of loan	24 019	23 088
Long term portion of loan	162 548	186 599
	186 567	209 687

An existing loan to the Klerksdorp Rolbalkklub is being repaid with an interest rate of 5% applicable. The MFMA stopped the practice of giving loans to sport bodies

Remuneration overpaid to councillors

4 577 161	4 577 161
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City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
7. Other receivables (continued)		
The councillors received remuneration that was above the upper limits as determined by the Minister of Finance hence in order for the requirements of section 7(1) of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998) to be complied with, this overpayments have to be repaid by the councillors. This amount constitutes Irregular expenditure deemed recoverable.		
8. Inventories		
Consumable stores	42 213 465	47 132 853
Water	1 862 238	1 530 528
Museum stores - at authorised value	164 440	165 182
Unsold properties held for resale at council resolution or municipal valuation	29 363 997	30 352 235
	73 604 140	79 180 798
9. Receivables from exchange transactions		
Deposits	727 153	727 153
Receivables	33 295 970	23 775 061
Market	1 939 506	1 939 506
Housing and housing rentals	1 445 006	1 484 444
	37 407 635	27 926 164
10. VAT receivable		
VAT	40 282 718	15 775 108
11. Consumer debtors		
Gross balances		
Rates	107 614 685	88 034 004
Electricity	277 164 310	248 581 626
Water	580 608 402	465 675 017
Sewerage	129 427 089	113 117 997
Refuse	169 358 771	127 784 322
Interest on overdue accounts	421 941 100	339 376 263
Other	228 417 892	198 181 140
	1 914 532 249	1 580 750 369
Less: Allowance for impairment		
Rates	(102 779 967)	(81 268 174)
Electricity	(264 712 373)	(236 221 895)
Water	(554 523 878)	(441 674 192)
Sewerage	(123 612 423)	(107 913 503)
Refuse	(161 750 127)	(121 490 274)
Interest on overdue accounts	(402 984 894)	(321 563 317)
Other	(218 155 946)	(194 820 070)
	(1 828 519 608)	(1 504 951 425)

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
11. Consumer debtors (continued)		
Net balance		
Rates	4 834 718	6 765 830
Electricity	12 451 937	12 359 731
Water	26 084 524	24 000 826
Sewerage	5 814 666	5 204 494
Refuse	7 608 644	6 294 048
Interest on overdue accounts	18 956 206	17 812 946
Other	10 261 946	3 361 070
	86 012 641	75 798 945
Rates		
Current (0 -30 days)	17 465 863	12 289 120
31 - 60 days	4 824 820	2 502 225
61 - 90 days	4 556 889	2 274 053
91+ days	80 767 113	70 968 606
Provision for bad debts	(102 779 967)	(81 268 174)
	4 834 718	6 765 830
Electricity		
Current (0 -30 days)	36 472 604	37 681 540
31 - 60 days	9 930 787	8 017 152
61 - 90 days	4 728 127	4 023 760
91 + days	226 032 792	198 859 174
Provision for bad debts	(264 712 373)	(236 221 895)
	12 451 937	12 359 731
Water		
Current (0 -30 days)	24 292 906	21 350 983
31 - 60 days	15 809 493	12 617 707
61 - 90 days	13 609 423	10 398 278
91 + days	526 896 580	421 308 050
Provision for bad debts	(554 523 878)	(441 674 192)
	26 084 524	24 000 826
Sewerage		
Current (0 -30 days)	5 408 240	4 579 610
31 - 60 days	2 573 001	1 730 808
61 - 90 days	2 232 751	1 313 816
91 + days	119 213 097	105 493 763
Provision for bad debts	(123 612 423)	(107 913 503)
	5 814 666	5 204 494
Refuse		
Current (0 -30 days)	7 091 294	4 920 157
31 - 60 days	4 524 763	2 269 123
61 - 90 days	4 191 878	1 905 483
91 + days	153 550 836	118 689 559
Provision for bad debts	(161 750 127)	(121 490 274)
	7 608 644	6 294 048

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
11. Consumer debtors (continued)		
Interest on overdue accounts		
Current (0 -30 days)	10 328 103	5 689 950
31 - 60 days	10 061 736	5 540 309
61 - 90 days	9 285 748	4 930 755
91 + days	392 265 513	323 215 250
Provisions for bad debts	(402 984 894)	(321 563 318)
	18 956 206	17 812 946
Other		
Current (0 -30 days)	11 395 099	11 866 649
31 - 60 days	5 191 063	4 690 251
61 - 90 days	3 907 507	3 161 002
91 + days	207 924 223	178 463 238
Provision for bad debts	(218 155 946)	(194 820 070)
	10 261 946	3 361 070
Reconciliation of allowance for impairment		
Balance at beginning of the year	(1 504 951 425)	(1 282 972 063)
Contributions to allowance	(325 678 278)	(221 979 362)
Debt impairment written off against allowance	2 110 095	-
	(1 828 519 608)	(1 504 951 425)

The carrying value of consumer debtors approximate fair value.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	68 500	68 500
Bank balances	400 606	25 680 989
Short-term deposits	32 432 148	23 908 173
	32 901 254	49 657 662

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA Bank - cheque account - 4060008684	144 183	83 216	3 000	118 628	72 005	(16 000)
ABSA Bank - cheque account - 01000100176	4 805 676	12 740 886	3 436 786	(338 656)	22 196 106	813 979
ABSA Bank - cheque account - 950164379 (Council water)	982 081	3 543 222	2 074 331	380 255	3 177 193	1 766 987
ABSA Bank - cheque account - 950000090 (Market)	814 093	780 414	2 514 814	92 062	92 062	92 062
ABSA Bank - call account - 4071085841 (Housing)	148 713	143 624	120 359	148 317	143 624	120 359
Total	6 894 746	17 291 362	8 149 290	400 606	25 680 990	2 777 387

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
13. Other financial liabilities		
At amortised cost		
Shiva Uranium	32 409 664	32 409 664
The loan is interest free and repayable by selling portable water to the company at R0.50 per kilolitre discount to the regular price of potable water pumped.		
Annuity loans	96 529 632	111 236 120
Refer to appendix A for more detail on long-term liabilities.		
	128 939 296	143 645 784
Total other financial liabilities	128 939 296	143 645 784
Non-current liabilities		
At amortised cost	115 829 754	128 939 305
Current liabilities		
At amortised cost	13 109 542	14 706 478
14. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
MIG	16 822 926	43 477 395
National Electricity Regulator	2 714 998	2 322 308
FMG	-	629 101
DWAF	276 464	276 464
MSIG	135 736	229 622
EPWP	4 773 198	3 690 262
Fire Grant	52 606	52 606
Library grant	1 240 587	1 066 118
NDPG Grant	3 971 670	-
Dr Kenneth Kaunda District Municipality	213 176	213 176
Disaster Assessment Management Grant	200 000	200 000
District Grant	4 581 284	3 364 660
Museum Grant	7 350	-
	34 989 995	55 521 712

See note 21 for reconciliation of grants from National/Provincial Government.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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15. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	14 354 384	1 676 745	-	16 031 129
Continuous medical aid contribution	195 598 486	17 631 353	-	213 229 839
Performance bonuses	820 605	-	(820 605)	-
Long service awards	46 222 438	4 453 932	-	50 676 370
	256 995 913	23 762 030	(820 605)	279 937 338

Reconciliation of provisions - 2014

	Opening Balance	Additions	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	11 843 979	2 510 405	-	14 354 384
Continuous medical aid contribution	235 206 401	-	(39 607 915)	195 598 486
Performance bonuses	820 605	-	-	820 605
Long service awards	43 112 375	3 110 063	-	46 222 438
	290 983 360	5 620 468	(39 607 915)	256 995 913

Non-current liabilities	267 491 759	243 462 265
Current liabilities	12 445 579	13 533 648
	279 937 338	256 995 913

Environmental rehabilitation provision

In terms of the licensing of the landfill refuse sites, the municipality will incur rehabilitation costs to restore the site at the end of its useful life. Provision has been made for the net present value of this cost.

Employee benefit cost provision

	2015	2014
Opening defined benefit obligation	195 598 486	235 206 401
Plus Service Cost	8 081 534	9 559 011
Plus Interest / Finance cost	17 012 017	20 265 331
Actuarial (Gain)/Loss	585 710	(60 636 064)
Expected Employer Benefit Payments	(8 047 908)	(8 796 193)
	213 229 839	195 598 486

The Municipality provides a subsidy towards medical aid contributions payable by some employees who joined Matlosana and remain in the employ of Matlosana until retirement. The post-employment subsidy policy aims to be the same as that during employment. The subsidy rate is at a rate of 60% of monthly contributions and is subject to a cap, which is currently at R3 618.04. This defined benefit obligation is unfunded.

The value of this provision was determined by ARCH Actuarial Consulting CC, an independent actuarial consulting firm, as at 30 June 2015. The value of the provision is dependent on, amongst others, the demographic profile of employees, long maturity bond yields as well as assumptions for mortality and medical scheme contributions.

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

Discount rate : 8.92% (2014 :8.88%)

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
15. Provisions (continued)		
Future Medical inflation rate per annum : 8.05% (2014 : 8.1%)		
Take-up by retired employees : 100% (2014 : 100%)		
Retirement age : 65 (2014 : 65)		
Pre retirement mortality : SA85-90 Light (2014 : SA85-90 Light)		
Post retirement mortality : PA[90] (2014 : PA[90])		
Provision for Long Service Awards	2015	2014
Balance at beginning of year	46 222 438	43 112 375
Current-service cost	4 020 405	3 882 595
Interest cost	3 554 095	3 074 788
Benefits Paid	(4 665 135)	(4 786 020)
Actuarial Loss / (Gain)	1 544 558	938 700
	50 676 361	46 222 438

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 2 023 employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2015 is estimated to be R 4 020 405, whereas the cost for the ensuing year is estimated to be R 4 519 344 (30 June 2014: R 3 882 995 and R 4 020 405 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate: 8.15% (2014: 8.09%)

Cost Inflation Rate: 7.15% (2014: 7.19%)

Net Effective Discount Rate: 0.93% (2014: 0.84%)

Expected Retirement Age: 65 (2014: 65)

16. Payables from exchange transactions

Trade payables	382 792 862	335 815 550
Payments received in advanced	38 774 132	46 343 021
Accrued leave pay	61 935 330	64 699 773
Long Service Leave	4 861 176	4 211 424
Sundry creditors	47 684 435	52 281 648
Housing : Absa bank account	148 317	143 624
Other Creditors	2 070	2 070
	536 198 322	503 497 110

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
17. Consumer deposits		
Electricity and water	22 947 417	16 678 404
18. Revenue		
Rendering of services	38	4 154
Service charges	1 061 158 920	988 903 850
Rental of facilities and equipment	5 232 869	4 905 070
Licences and permits	6 773 240	7 012 811
Miscellaneous other revenue	137 440	211 098
Property rates	247 297 084	190 356 830
Government grants & subsidies	434 482 074	438 551 726
Levies	1 507 176	1 397 186
Fines, Penalties and Forfeits	5 386 779	9 305 861
Market Dues	14 928 306	15 418 449
	1 776 903 926	1 656 067 035
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1 061 158 920	988 903 850
Rendering of services	38	4 154
Rental of facilities and equipment	5 232 869	4 905 070
Licences and permits	6 773 240	7 012 811
Miscellaneous other revenue	137 440	211 098
Commissions received	9 885 896	10 337 606
Recoveries	2 013 743	40 645 863
	1 085 202 146	1 052 020 452
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	247 297 084	190 356 830
Transfer revenue		
Government grants & subsidies	434 482 074	438 551 726
Levies	1 507 176	1 397 186
Fines, Penalties and Forfeits	5 386 779	9 305 861
Market Dues	14 928 306	15 418 449
	703 601 419	655 030 052

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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19. Property rates

Rates received

Residential	198 312 605	163 656 229
State	30 016 980	11 240 316
Indigent	18 929 443	15 422 231
Sundry debtors	38 055	38 055
	247 297 083	190 356 831

Valuations

Residential	15 535 909 231	15 444 624 555
State	934 669 050	858 041 050
Municipal	625 832 325	615 840 525
Agricultural	2 057 631 936	2 049 681 396
Business	4 701 022 117	4 125 887 403
	23 855 064 659	23 094 074 929

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. The valuations were done by DDP Valuers on behalf of the Municipality.

20. Service charges

Sale of electricity	594 194 394	576 582 490
Sale of water	309 364 140	283 922 786
Sewerage and sanitation charges	68 004 886	60 810 433
Refuse removal	89 595 500	67 588 142
	1 061 158 920	988 903 851

21. Government grants and subsidies

Operating grants

Equitable share	339 136 000	337 085 000
MIG	76 769 779	82 616 283
FMG	1 600 834	1 802 242
MSIG	798 886	660 379
Library Grant	225 531	364 692
NDPG Grant	15 028 330	-
District Grant	-	12 223 105
Museum Grant	92 650	-
	433 652 010	434 751 701

Capital grants

District MEYMP	-	2 800 000
EPWP	830 064	1 000 026
	830 064	3 800 026
	434 482 074	438 551 727

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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21. Government grants and subsidies (continued)

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 454 (2014: 390), which is funded from the grant.

MIG

Balance unspent at beginning of year	43 477 395	90 323 678
Current-year receipts	85 331 000	75 870 000
Conditions met - transferred to revenue	(76 062 469)	(82 616 283)
Roll over denied	(35 923 000)	(40 100 000)
	16 822 926	43 477 395

Conditions still to be met - remain liabilities (see note 14)

NERSA

Balance unspent at beginning of year	2 322 308	2 322 308
Current-year receipts	1 100 000	-
Conditions met - transferred to revenue	(707 310)	-
	2 714 998	2 322 308

Conditions still to be met - remain liabilities (see note 14)

FMG

Balance unspent at beginning of year	629 101	881 343
Current-year receipts	1 600 000	1 550 000
Conditions met - transferred to revenue	(1 600 834)	(1 802 242)
Roll over denied	(628 267)	-
	-	629 101

Conditions still to be met - remain liabilities (see note 14)

DWAF

Balance unspent at beginning of year	276 464	276 464
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Conditions still to be met - remain liabilities (see note 14)

MSIG

Balance unspent at beginning of year	229 622	-
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(798 886)	(660 378)
Roll over denied	(229 000)	-
	135 736	229 622

Conditions still to be met - remain liabilities (see note 14)

EPWP

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
21. Government grants and subsidies (continued)		
Balance unspent at beginning of year	3 690 262	3 690 262
Current-year receipts	1 913 000	1 000 000
Conditions met - transferred to revenue	(830 064)	(1 000 000)
	4 773 198	3 690 262
Conditions still to be met - remain liabilities (see note 14)		
Fire		
Balance unspent at beginning of year	52 606	52 606
Conditions still to be met - remain liabilities (see note 14).		
Library		
Balance unspent at beginning of year	1 066 119	1 030 811
Current-year receipts	400 000	400 000
Conditions met - transferred to revenue	(225 530)	(364 692)
	1 240 589	1 066 119
Conditions still to be met - remain liabilities (see note 14).		
NDPG Grant		
Current-year receipts	19 000 000	-
Conditions met - transferred to revenue	(15 028 330)	-
	3 971 670	-
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		
District MEYMP		
Balance unspent at beginning of year	213 176	213 176
Conditions still to be met - remain liabilities (see note 14).		
Disaster Assessment Management Grant		
Balance unspent at beginning of year	200 000	-
Current-year receipts	-	200 000
	200 000	200 000
Conditions still to be met - remain liabilities (see note 14).		
District Grant		
Balance unspent at beginning of year	3 364 660	-
Current-year receipts	1 216 624	15 587 765
Conditions met - transferred to revenue	-	(12 223 105)
	4 581 284	3 364 660
Conditions still to be met - remain liabilities (see note 14).		

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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21. Government grants and subsidies (continued)

Museum Grant

Current-year receipts	100 000	-
Conditions met - transferred to revenue	(92 650)	-
	7 350	-

Conditions still to be met - remain liabilities (see note 14).

22. Other income

Commissions received	9 885 896	10 337 606
Royalties received	1 976 233	2 123 176
Rental income - third party	237 722	138 187
Discount received	569 692	880 337
Recoveries	1 193 138	1 037 948
Gain on movement of provisions	820 605	39 607 915
Other miscellaneous income	16 758 313	16 424 239
Donation of community hall	5 000 000	-
	36 441 599	70 549 408

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
23. General expenses		
Advertising	1 538 220	1 505 437
Auditors remuneration	4 886 243	4 845 403
Bank charges	7 813 433	7 280 162
Consulting and Legal fees	9 972 594	8 591 386
Consumables	1 044 451	1 194 024
Discount allowed	8 960	871 994
Entertainment	95 020	254 907
Fines and penalties	37 400	357 750
Installation cost	49 004 795	19 821 032
Animal Costs	-	1 833
Gifts	-	9 214
Hire	2 320 635	594 084
Insurance	8 084 170	3 771 353
Community development and training	115 658	385 911
Conferences and seminars	638 857	465 232
Marketing	169 109	322 191
Promotions and sponsorships	-	198 073
Magazines, books and periodicals	64 715	87 044
Medical expenses	8 945	24 878
Motor vehicle expenses	32 215 548	30 734 379
Pest control	87 546	29 099
Postage and courier	3 232 234	3 048 149
Printing and stationery	2 304 973	3 308 663
Promotions	-	25 259
Royalties and license fees	-	4 710
Security (Guarding of municipal property)	-	24 875
Subscriptions and membership fees	5 076 147	4 381 009
Telephone and fax	5 734 140	5 475 514
Transport and freight	26 571	33 149
Training	2 511 362	2 593 141
Travel - local	328 133	341 807
Refuse	2 941 275	4 744 667
Title deed search fees	205 848	153 450
Other miscellaneous	21 977 821	29 613 584
Revenue Enhancement	1 195 839	8 991 616
Alternative Energy	13 273 327	12 478 554
Indigent costs	19 101 715	15 414 067
Clean audit project	5 491 819	4 422 563
Meter Readings	8 145 837	9 003 955
Valuation Fees	357 051	5 442 403
Tracing fees	20 230	149 940
Chemicals	873 107	1 151 812
	210 903 728	192 148 273

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
24. Employee related costs		
Basic	287 527 744	279 745 899
Medical aid - company contributions	54 122 796	33 306 479
UIF	2 821 375	2 804 814
WCA	2 160 350	2 472 841
Other payroll levies	3 734 516	3 626 734
Leave pay provision charge	(2 487 209)	11 523 626
Travel, motor car, accommodation, subsistence and other allowances	6 883 404	6 169 076
Overtime payments	29 868 852	28 952 611
Long-service awards	4 453 932	3 110 063
13th Cheques	22 738 064	21 780 794
Housing benefits and allowances	1 387 153	1 282 830
Group insurance	1 050 980	948 156
Pension fund	58 938 017	57 107 672
Redemption of leave	4 255 290	3 669 388
Other payments	985 674	1 911 277
	478 440 938	458 412 260
Remuneration of municipal manager		
Motsemme ET (Municipal Manager)	1 313 903	1 231 225
Mabuda SG (Acting Municipal Manager since February 2015)	668 918	-
	1 982 821	1 231 225
Remuneration of Chief Finance Officer		
Kwenamore WM (Acting Chief Financial Officer until January 2015)	630 260	1 226 671
Browm JM (Acting Chief Financial Officer: January to February 2015)	46 000	-
CHR Boshoff (Acting Chief Financial Officer since February 2015)	544 367	-
	1 220 627	1 226 671
Remuneration of Director Municipal & Social Services (Vacant)		
Annual equivalent remuneration.	1 067 946	1 004 727
Remuneration of Director Corporate Services		
Stydom AG (Appointed from 16 April 2012 until 31 October 2014)	334 884	1 822 957
Ciya ND (Acting director from 1 July 2014 to 30 October 2014)	95 093	-
Ramorola LM (Acting director since 1 November 2014)	733 034	-
	1 163 011	1 822 957
Remuneration of Director Macro City Planning & Development		
Annual equivalent remuneration (Mabuda SG was appointed acting municipal manager from 14 January 2015)	1 067 946	1 004 727
Remuneration of Director Strategic Planning, Monitoring and Control (Vacant)		
Annual equivalent remuneration.	1 067 946	1 004 727
Remuneration of Director Infrastructure (Vacant)		
Annual equivalent remuneration.	1 067 946	1 004 651
Remuneration of Director Electrical and Mechanical Engineering (Vacant)		
Annual equivalent remuneration.	1 067 946	901 175

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
25. Remuneration of councillors		
Executive Mayor	724 669	724 669
Mayoral Committee Members	6 137 898	6 605 373
Speaker	583 908	583 908
Councillors	13 011 782	12 936 513
	20 458 257	20 850 463
In-kind benefits		
The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor has the use of a Council owned vehicle for official duties.		
The Executive Mayor has one full-time bodyguard\driver.		
26. Debt impairment		
Contributions to debt impairment provision	296 473 318	199 453 276
Bad debts written off	2 110 095	-
	298 583 413	199 453 276
27. Investment revenue		
Interest revenue		
Bank	1 120 767	1 100 054
Interest charged on trade and other receivables	87 282 388	52 281 792
Interest on investments	2 799 250	3 686 045
	91 202 405	57 067 891
28. Depreciation and amortisation		
Property, plant and equipment	439 621 839	439 756 557
29. Finance costs		
Non-current borrowings	12 111 941	13 972 619
Other interest paid	31 667 058	20 476 234
	43 778 999	34 448 853
30. Auditors' remuneration		
Fees	4 886 243	4 845 403
31. Contracted services		
Security Services	18 379 469	17 962 545
Disconnecting/ Connecting Services	4 457 768	55 041 616
Debt Collection	5 847 346	25 596 509
Garden Services Paypoints	20 000	39 882
Alarm System Monitoring Services	-	14 204
	28 704 583	98 654 756

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
32. Bulk purchases		
Electricity	448 509 787	435 735 434
Water	209 119 521	210 948 932
	657 629 308	646 684 366
Electricity (losses in units)	160 757 258	154 414 897
Electricity (losses as %)	27%	26%
Water (losses in units)	10 828 016	11 072 917
Water (losses) in %	36%	36%
Electricity and water are supplied by Eskom and Midvaal Water Company.		
The municipality is in the process of installing meters at all its premises to enable us to accurately measure and manage own use. A strategy has been developed to minimise distribution losses and it will be implemented over time due to budget constraints.		
33. Cash generated from operations		
Deficit	(338 987 347)	(356 152 510)
Adjustments for:		
Depreciation and amortisation	439 621 839	439 756 557
Movement in valuation of wild stock	68 047	1 314 035
Debt impairment	298 583 413	199 453 276
Movements in provisions	22 941 425	(22 463 821)
Non-cash donation received	(5 000 000)	-
Stock Adjustment	(126 065)	-
Loss on sale of assets	32 374 453	751 399
Changes in working capital:		
Inventories	5 702 723	(15 334 491)
Receivables from exchange transactions	(9 481 471)	(4 622 810)
Consumer debtors	(333 781 880)	(218 920 371)
Other receivables	23 120	-
Payables from exchange transactions	32 701 213	119 325 724
VAT	477 161	29 390 684
Receivables arising from irregular expenditure	-	(1 772 225)
Unspent conditional grants and receipts	(20 531 717)	(3 168 962)
	124 584 914	167 556 485

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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34. Commitments

Authorised capital expenditure

• Infrastructure	37 723 897	40 986 607
• Community	-	9 588 303
	37 723 897	50 574 910

This expenditure will be financed from :

• Government grants	37 723 897	50 574 910
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	6 819 540	956 384
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Operating lease payments represent rentals payable by the municipality for certain of its office properties, vehicles and office equipment. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

35. Contingencies

Contingent assets

City of Matlosana / Munmap (Pty) Ltd Maximum Profit Recovery (Pty) Ltd

Council obtained judgement against respondent.	1 300 000	-
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City of Matlosana / MM Moadira

Six claims were formulated in the summons relating to financial losses incurred due to misconduct by the defendant.

4 754 892	4 754 892
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City of Matlosana / Reetseng Construction CC

A claim by the Council for the non-delivery of goods paid for.

276 633	276 633
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City of Matlosana / Balemi Civils

A claim by Council for non performance of contract CE58/2/2007/B.

1 600 000	1 600 000
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City of Matlosana / Badiboa Building Construction CC

Council instituted legal action to recover monies as per surety for failure to perform as per tender CE2/2/2010.

-	1 500 000
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City of Matlosana / Mr Masisi

City of Matlosana sued Mr. Masisi for fruitless and waste full expenditure,

1 901 264	7 822 100
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City of Matlosana / Zazise Communications CC

A claim by the Council for the non-payment of money owed by the defendant for advertisement.

500 000	500 000
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City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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36. Related parties

Relationships

Councillor LM Kortjas	Midvaal Water Company
Councillor RA Matsepe	Midvaal Water Company
Councillor EPJ Nel	Midvaal Water Company
Councillor S Nakedi	Midvaal Water Company
Councillor MI Groenewald	Midvaal Water Company
Councillor EJ Legassick	Star Lubricant Distributors CC
Councillor L Robinson	SENWES
Councillor A Combrinck	Lomdrom Skips
Councillor Dithejane MC	Lerato Botho Building Electrical Construction CC

Councillors are members of the board of directors of the Midvaal Water Company (a section 21 company) who supply bulk water to the City of Matlosana. Transactions with Midvaal Water Company amounted to R209 119 521 (2014:R210 948 932). Midvaal Water Company is a supplier and the transactions are at arm's length.

Councillor Legassick is a related party to Star Lubricant Distributors and the amount contracted for the year amounted to R0.00 (2014: R 2 505.45).

Councillor Dithejane is a member of Lerato Botho Building Electrical Construction CC which provides construction services that is awarded through the tender process. Expenditure for the current year is R0.00 (2014 : R 171 579)

Councillor A Combrinck is a related party of Lomdrom Skips and the amount contracted for the year amounted to R15 300 (2014: R3 600).

Councillor L Robinson is employed by SENWES and the amount contracted for the year amounted to R511.40.

Management is regarded as a related party and comprises the Councillors, Executive Mayor, Mayoral Committee members, Municipal Manager and Executive directors. Refer to note 24 and 25 for remuneration paid.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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37. Prior period errors

1. In 2013 the infrastructure assets were understated by R214 011 724.29, buildings were understated by R2 061 134.40, Heritage assets were understated by R 3 384 938.16 and Other assets were understated with R 2 082 545.31.
2. In 2014 there was an amount of R4 500 that was incorrectly classified under other income instead of equity, as a result the deficit was understated and equity was also understated.
3. In 2014 the Municipality reflected an equity balance for funds relating to housing development. This fund was not supported by any separately identified assets and liabilities related to housing development. As a result this fund should not have been separately disclosed in the annual financial statement but should have been included in the accumulated surplus.
4. In 2014 there's was roll over denied by National Treasury of unspent conditional grants, and national treasury stipulated that R40,1million of this unspent conditional grant should be paid back to treasury. This transaction was not accounted for consequently the liability due to national treasury was understated by R40.1million and grant revenue was overstated by the same amount.
5. In 2014 the workman's compensation due to the department of labour was understated and as a result the current liabilities were understated by the same amount. Consequently the related penalties were not accrued for and hence understated.
6. In 2014, the vat claimable was incorrectly treated on certain expenditure items, resulting in an overstatement of repairs and maintenance of R2 263 570,06 as well as understatement of VAT receivable by the same amount.
7. In 2014 the deferred VAT on impaired debtors was not correctly accounted for, as a result the VAT receivable was understated and the impairment expense recognised for the 2013-14 financial period was overstated.
8. There were journals incorrectly processed in the 2013-14 financial year that resulted in VAT receivable being overstated by R26 637 200, general expenditure being overstated by R5 615 249 and repairs and maintenance being understated by R1 269 149.
9. Due to the errors discovered in 2014 that relate to expenditure, the unauthorised expenditure was overstated by R35 313 185.
10. Due to insufficient review and monitoring, the reported irregular expenditure in 2014 was understated by R51 573 910.
11. During the 2014 financial period the loan due to Sihva Uranium for construction costs of water and sewerage pipelines was understated by R18 806 774.67 due to certain sections of the pipeline network not being accounted for.
12. In 2014, there was an amount relating to other receivables that was incorrectly mapped to payables from exchange transactions, as a result the other receivables were understated by R1 935 216.47 and the payables from exchange transactions were understated by the same amount.

Effect of errors on the Accumulated Surplus

Increase in accumulated surplus due to error 1	- 224 624 728
Increase in accumulated surplus due to error 2	- 4 500
Increase in accumulated surplus due to error 3	- 5 125 928
Decrease in accumulated surplus due to error 5	- (2 018 402)
Decrease in accumulated surplus due to error 8	- (30 983 303)
Decrease in accumulated surplus due to error 11	- (18 806 775)
Increase / (Decrease) in Unappropriated Surplus Account	- 177 946 676

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
37. Prior period errors (continued)		
Effect of errors on Statement of financial position		
Increase in Property, plant and equipment due to error 1	-	221 540 342
Decrease in the housing development fund due to error 3	-	5 125 928
Increase in National Treasury Liability due to error 4	-	(40 100 000)
Increase in payables from exchange transactions due to error 5	-	(4 647 702)
Increase in the VAT receivable due to error 6	-	2 263 570
Increase in the VAT receivable due to error 7	-	22 526 086
Decrease in VAT receivable due to error 8	-	(26 637 200)
Increase in other financial liabilities due to error 11	-	(18 806 775)
Increase in receivables from exchange transaction.	-	1 935 216
Increase in payables from exchange transactions	-	(1 935 216)
	-	161 264 249
Effect of errors on Statement of Financial Performance		
Deficit as previously reported	-	(339 470 084)
Increase in depreciation due to error 1	-	(3 084 386)
Decrease in other income due to error 2	-	(4 500)
Decrease in Grant revenue due to error 4	-	(40 100 000)
Increase in personnel costs due to error 5	-	(2 404 188)
Increase in finance cost due to error 5	-	(225 111)
Decrease in general expenses due to error 6	-	2 263 570
Decrease in debt impairment due to error 7	-	22 526 086
Decrease in general expenses due to error 8	-	5 615 249
Increase in repairs and maintenance due to error 8	-	(1 269 146)
Restated deficit as per Statement of changes in Net Assets	-	(356 152 510)

38. Comparative figures

Certain comparative figures have been reclassified.

1. Lease rentals on operating lease were included in general expenses in the prior period, these are now disclosed separately in the detailed income statement.

The effects of the reclassification are as follows:

Statement of financial performance

Increase in Lease rentals on operating lease	-	8 424 508
Decrease in General Expenses	-	(8 424 508)

39. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide services for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 13, cash and cash equivalents disclosed in note 12, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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39. Risk management (continued)

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The municipality's strategy is to maintain a gearing ratio of between 10% to 35%.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2015 and 2014 respectively were as follows:

Total borrowings

Current Liabilities		619 690 855	644 037 352
Non-current liabilities		383 321 513	372 401 570
		1 003 012 368	1 016 438 922
Less: Cash and cash equivalents	12	32 901 254	49 657 662
Net debt		970 111 114	966 781 260
Total equity		5 335 651 694	5 518 500 718
Total capital		6 305 762 808	6 485 281 978

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by a central treasury department under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2015 and 2014, the municipality's borrowings at variable rate were denominated in Rand.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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39. Risk management (continued)

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2015	2014
Long term receivables	25 959 453	24 202 640
Consumer debtors	86 012 641	75 798 944
Other receivables	4 601 180	4 600 249
Cash and cash equivalents	32 901 254	49 657 662

The municipality is exposed by a guarantee for a loan at DBSA and is secured by the Nedbank investment as disclosed in note 12.

40. Going concern

We draw attention to the fact that although the municipality reported a deficit of R338 987 347 at 30 June 2015, the municipality had accumulated surplus of 5 335 651 694 and that the municipality's total assets exceed its liabilities by 5 335 651 694. However current liabilities exceeds current assets by R344 881 287.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

We are experiencing cash flow challenges as a result of low debtors collection rate which has an impact on our ability to pay our creditors timeously. Our ability to continue as a going concern is highly dependant on improvement of collections and management of costs. As a result of the above financial indicators, some uncertainty exists regarding the Municipality to continue as a going concern.

41. Events after the reporting date

There were no material events that required an adjustment to the annual financial statements after the reporting date.

42. Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	1 404 482 186	784 404 168
Unauthorised expenditure current year	20 051 989	620 078 018
Unauthorised expenditure awaiting authorisation	1 424 534 175	1 404 482 186

The over expenditure for the 2015 financial year is mainly due interest on over due bulk purchases accounts. Regarding the 2014 unauthorised expenditure, the over expenditure against budget due to additional depreciation charge as a result of the GRAP 17 compliance exercise conducted and the impairment of consumer and sundry debtors. The total balance including the opening balance will be dealt with in accordance with the MFMA requirements.

43. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	54 228 686	36 036 348
Fruitless and wasteful expenditure current year	33 986 873	18 192 338
Fruitless and wasteful expenditure awaiting condonement	88 215 559	54 228 686

The Municipality incurred interest as a result of late payment of the Eskom, SARS and Auditor General accounts. Fines and penalties was also incurred for late submissions and other incidents of non-compliance.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
44. Irregular expenditure		
Reconciliation of irregular expenditure		
Opening balance	1 929 968 092	1 613 456 027
Add: Irregular Expenditure - current year	257 875 124	316 512 065
Irregular expenditure awaiting condonement	2 187 843 216	1 929 968 092
45. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government : SALGA		
Opening balance	23 754	1 688 140
Current year subscription / fee	4 442 020	4 442 020
Amount paid - current year	(4 442 020)	(6 106 406)
	23 754	23 754
Audit fees		
Opening balance	7 637 885	4 412 066
Current year subscription / fee	5 570 317	6 079 303
Amount paid - current year	(8 366 462)	(2 853 484)
	4 841 740	7 637 885
PAYE, UIF and SDL		
Opening balance	3 933 337	3 570 233
Current year subscription / fee	51 007 384	48 800 703
Amount paid - current year	(50 897 269)	(48 437 599)
	4 043 452	3 933 337
Pension and Medical Aid Deductions		
Opening balance	10 954 934	10 391 470
Current year subscription / fee	134 668 054	130 323 056
Amount paid - current year	(134 515 802)	(129 759 592)
	11 107 186	10 954 934

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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45. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	40 282 718	15 775 108
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Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:
(Currently arrangements with the councillors to deduct the outstanding balances from their monthly salaries in line with the council's credit policy)

30 June 2015	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor M Coetzee	3 332	30 887	34 219
30 June 2014	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor LM Kortjas	4 445	9 889	14 334

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2015	Highest outstanding amount 2015	Highest outstanding amount 2014
Councillor M Coetzee	34 219	-
Councillor IM Groenewald	-	2 871
Councillor LM Kortjas	-	20 895
	34 219	23 766

Supply chain management regulations

46. Utilisation of Long-term liabilities reconciliation

Long-term liabilities	128 939 296	143 645 783
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Refer to appendix A for more detail on long-term liabilities.

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
47. Contingent liabilities		
	-	-
Guarantee in favour of Telkom		
	-	-
Theron Jordaan & Smit / City of Matlosana This was an application by the claimant, a firm of attorneys, to be reinstated on the panel by council. There is also a counter action by council for files retained by the firm.	185 166	185 166
Francis Behr / City of Matlosana Mr. Behr claimed against the Council for not transferring Erf 3141 Orkney Extension 2 into his name as he paid an amount of R 13 500.	-	13 500
S Pillay / City of Matlosana Me. Shalin Pillay instituted legal action Council for damages suffered.	240 000	240 000
Roadspan Asphalt (Pty) Ltd / City of Matlosana Council is defending summons brought against the Council by the plaintiff.	174 292	174 292
QCK Lezmin 4251 CC / City of Matlosana Council is defending summons brought against the Council by the plaintiff.	1 309 124	1 309 124
River End Trading / City of Matlosana Council is defending summons brought against the Council by the plaintiff.	87 372	87 372
Ke A Dira Construction CC / City of Matlosana Council is defending summons brought against the Council by the plaintiff for losses alleged to have been experienced due to the revision of tender FS 1/2011.	2 274 703	2 274 703
Itumre Building Supply CC / City of Matlosana The City of Matlosana is defending the matter.	563 816	563 816
Silver Blade Abattoir (Pty) Ltd / City of Matlosana The claimant instituted legal action against City Matlosana	-	200 000
MM Moadira / Executive Mayor and City of Matlosana The claimant instituted legal action against the City of Matlosana	4 000 000	4 000 000
P & S Basson / City of Matlosana The claimant instituted legal action against the City of Matlosana	141 600	-
Afriforum / City of Matlosana Afriforum sued the municipality for non-payment of the Midvaal and Eskom accounts	-	1 000 000
Panos Kannelakapoulos / City of Matlosana The claimant instituted legal action against the City of Matlosana	6 100	-
Munmap (Pty) Ltd Maximum Profit Recovery / City of Matlosana The claimant instituted legal action against the City of Matlosana	1 200 000	-
Custos Beskerming CC / City of Matlosana The claimant instituted legal action against the City of Matlosana	36 231	-

City of Matlosana

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
47. Contingent liabilities (continued)		
Paul Fick Cronje / City of Matlosana		
The claimant instituted a claim the City of Matlosana	2 005	-
Norman Gerdus Keyser / City of Matlosana		
	98 455	-
Joseph L. Moshesh / City of Matlosana		
The claimant instituted legal action against the City of Matlosana	60 000	-
Invula Roads and Civil / City of Matlosana		
The claimant instituted legal action against the City of Matlosana.	1 522 100	-